
2013 BUDGET OVERVIEW

This budget section is preceded by the Mayor's Message, which is delivered to the City Council at the first budget hearing. The Mayor's Message is intended to be read in concert with this overview section.

2013 Financial Overview

Total City

The City's Operating Budget is comprised of 57 separate funds, each with a unique purpose. The budget funds day-to-day expenditures for a variety of services. Among these are police and fire protection, water and sewer services, transit, street maintenance, parks and the library, debt service, and support services. These basic services are funded by user fees, taxes, permits, grants, state-shared revenues and other charges. The budget can vary greatly from year to year depending on construction projects and equipment replacement schedules. As summarized below, the total City expenditure budget increased by \$54.4 million between 2012 and 2013.

<u>Expenditure Budget</u>	<u>Adopted 2012</u>	<u>Adopted 2013</u>	<u>% Increase (Decrease)</u>
General Government	\$ 110,434,583	\$ 111,699,407	1.1%
Special Revenue Funds	33,453,045	31,888,217	-4.7%
Debt Service	2,029,000	2,239,000	10.3%
Enterprise Funds	109,468,328	161,144,356	47.2%
Internal Service Funds	26,916,357	29,382,283	9.2%
Police & Fire Pension Funds	<u>5,028,894</u>	<u>5,350,654</u>	<u>6.4%</u>
Total Expenditure Budget	\$ 287,330,207	\$ 341,703,917	18.9%

The total City revenue budget increased \$47.1 million in 2013, from \$264.7 to \$311.8 million, excluding beginning fund balances. The City's ending fund balance budgets decreased by \$29.9 million from \$187.1 million in 2012 to \$157.2 million in 2013.

Additional information on the revenue, expenditure, and fund balance changes for various funds can be found in the Financial Summary section of the budget.

General Government

The City's Five-Year Outlook financial model functions as a key tool in the general government budget development process. As the budget develops, all changes are processed through the Outlook to forecast the five-year impacts. The City maintains a fund balance policy that limits operating expenses to operating revenues and targets the General Government Fund balance at 20% of operating revenues.

At the beginning of the 2013 budget process, the model projected a \$10.6 million operating deficit for 2013. Subsequent revisions to the revenue forecast and expenditure budget eliminated the projected deficit, bringing 2013 operating expenditures in line with 2013 operating revenues.

The primary guidelines used for the annual budget development were as follows:

- Adhere to sound fiscal management practices
- Maintain the discipline of limiting current expenses to current revenues
- Maintain, to the extent possible, the current level of public services

These guidelines carried forward from 2012 as the City confronted yet another unusually challenging budget year. The chief constraints facing the City budget for the year 2013 included:

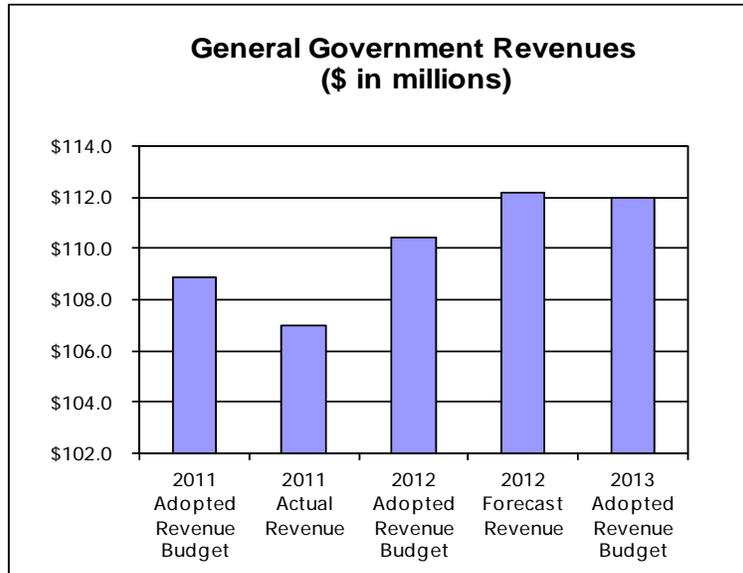
- Slow growth in retail sales and a reduction in utility tax revenues
- Slow growth in new residential and commercial building projects
- Limit on property tax revenue growth to 1% on the base, plus adjustments for new construction and annexations
- Higher employee health care and PERS/LEOFF retirement funding costs

Major budget changes to balance the 2013 budget are listed below.

2013 Budget Balancing	
2013 Estimated Annual Deficit as of 12/01/11	\$ (10,601,506)
BUDGET CHANGES:	
Revenue adjustments:	
Sales tax	141,143
Utility taxes (natural gas, telephone, eclectic)	(497,790)
Brokered natural gas	(315,000)
All other revenues	187,713
Labor adjustments:	
Increase vacancies held open	956,890
Adjust for CPI impact on COLAs	261,700
Benefit adjustments (medical, dental, vision, retirement)	(314,974)
Begin Appointive/Elected insurance contribution	215,500
Other adjustments (position changes, step increases)	97,366
Expenditure adjustments:	
Make 2010 temporary budget reductions permanent	378,806
Reduce jail fees	454,581
Defer traffic sign replacement program	160,000
Insurance (premiums, tort liab, workers comp, unemployment)	524,024
All other expenditure adjustments	285,204
Pension and reserve contribution adjustments:	
Suspend 2013's annual police and fire pension reserve contribution	3,581,080
Reduce MVD reserve contribution	1,250,000
Reduce Facilities reserve contribution	350,000
Prefunds (using 2012 under expenditures):	
Prefund 2013 General Government's (GG) tort liability reserve contribution	524,663
Prefund 2013 GG General Insurance Premiums	921,104
Prefund 2013 GG Workers' Compensation reserve contribution	1,392,316
Prefund part of 2013 GG Unemployment reserve contribution	47,180
Total Budget Changes:	<u>\$ 10,601,506</u>
Revised Annual Balance	<u>\$ -</u>

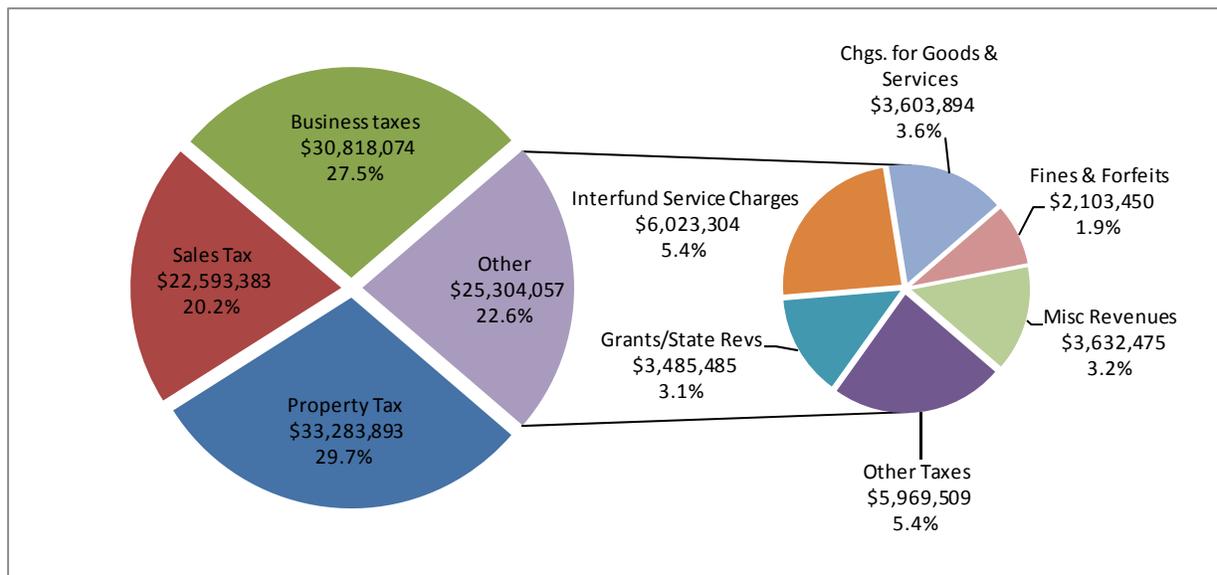
General Government Revenues

The 2013 general government revenue budget, excluding beginning fund balance, is \$112 million - a 0.18% decrease over the 2012 year-end forecast. It provides for an ending fund balance of \$22.4 million, or 20% of operating revenues, and maintains compliance with the City's fund balance policy.



Everett strives to maintain a diverse and stable revenue base to shelter public services from short-term fluctuations in any one revenue source. The current economic development activities are helping to move the City toward a more balanced revenue base, as shown in the graph below.

General Government Revenue Sources



Special Revenue Funds

The City has 17 Special Revenue Funds which account for the proceeds of specific revenue sources that are restricted for specific expenditure purposes. These funds are related to General Government operations. Budget details can be found in the Special Revenue section of this document. Items of note include:

- The Motor Vehicle Replacement fund budget includes funds for the replacement of two fire pumper trucks and a fire aerial ladder truck, totaling \$2.2 million.
- The Hotel/Motel tax fund has made \$150,000 in grants available to support and promote tourism within the City after two years of not providing such grants due to sluggish receipts.
- Beginning in 2013, parking fines will be returned to the General Fund after having been directed to Fund 144 – Downtown Improvement Fund for the years 2009 through 2012.
- The EMS Division of the Fire Department has a \$7.6 million operating budget that is funded by a property tax levy and transport fees. Voters reaffirmed their commitment to the paramedic program by approving a six-year levy lid lift to increase the EMS levy rate to the maximum permissible rate of \$0.50 per \$1,000 assessed valuation in April 2010. While the restoration of the levy rate raised the allowable collections for 2011, subsequent reductions in assessed value and the \$0.50 levy rate ceiling resulted in a decrease in property taxes for 2012 and a further decline in 2013.
- The Capital Improvement Reserve Fund, Fund 162, provides funding for debt service for the City's obligations relating to the Events Center Land acquisition and the Conference Center construction, debt support to the Everett Public Facilities District; and funding for the Municipal Court building project.
- A 0.50 FTE was transferred from Fund 198 – Community Development Block Grant to Fund 021 – Planning due to reductions in federal Community Development Block Grant funding.

Enterprise Funds

The City has seven enterprise funds that are mainly self-supporting and expected to operate like private businesses. Items of note include:

Utilities (Water, Sewer and Surface Water Management): Overall, Everett Utilities' service revenues are projected to decline by approximately 9.15% for 2013. This revenue reduction is the result of the Kimberly-Clark mill ceasing operation in Everett. The revenue shortfall has been addressed in a new rate ordinance that was implemented subsequent to the budget process.

Service expenses are projected to decrease by \$0.3 million. Some of the major changes include; an increase of \$1.5 million in biosolid management; an increase of \$1.2 million in labor costs; and reductions in operating supplies and small equipment, vehicle replacements, interfund professional services and insurance charges, debt service costs, and repairs and maintenance of \$0.3 million, \$0.5 million, \$0.7 million, \$0.6 million, and \$1.0 million, respectively.

The 2013 budget includes a 2.6% COLA increase, an additional full time engineering technician and a part time accounting technician (0.5 FTE) to support efforts of regulatory compliance with public works maintenance and operational activities. Additionally, four Street department employees have been temporarily assigned to Utilities to work on the surface water maintenance project. This includes inspection and cleaning of all catch basins, retention basins, storage vaults, ditches, culverts, and manholes; in order to maintain compliance with Department of Ecology Phase II Stormwater regulations.

The Utility Department strives to maintain a balance between preserving essential services for its customers while minimizing the cost of service. We continue to invest in our future, efficiently manage our resources, and provide a high level of service to city residents and purveyors.

Utilities strives to maintain a balance between preserving essential services for its customers while minimizing the cost of service. We continue to invest in our future, efficiently manage our resources, and provide a high level of service to city residents and purveyors.

Transit Fund: Everett Transit implemented a 15% overall service reduction in September 2012. The affect was a significant reduction in driver overtime related expenses. Although sales tax revenue was about 1.5% below projections, cost reductions in service and other areas resulted in total operating expenses being 0.54% less than total revenues. Everett Transit also implemented a 25 cent across the board fare increase in January 2013.

Everett Transit continues to upgrade its fleets of fixed route and paratransit vehicles with the assistance of federal grant funds. Seven fixed route buses and five paratransit vans will be replaced in the first six months of 2013. Seven fixed route diesel buses, some more than 20 years old, will be replaced by diesel-electric hybrid buses. Five gasoline paratransit vans will be replaced with fuel efficient modern clean diesel-powered vans. Transit is also making bus stop and shelter improvements along major corridors within the City with the assistance of federal grants.

Transit continues to coordinate services with sister agencies to facilitate regional travel for the residents of its service area, including support of the Bus Rapid Transit (BRT) service along Evergreen Way within the City limits as well as the seamless fare service provided by One Regional Card for All (ORCA). Within the ORCA system implemented in May 2009, special pricing plans are available to employers, schools, and social service agencies through Business Accounts aimed at encouraging commute trip reduction and improving the environmental footprint of the City.

Capital Expenditures

The total budgeted capital expenditures by major category for 2013 are listed below. Further detail can be found in the Capital Improvement Program section of this document.

2013 Budgeted Capital Expenditures

Category	Included in Operating Budget	Included in Capital Budget	Total	Percent of Total
General Government	\$ 9,661,939	\$ 6,658,298	\$ 16,320,237	21.7%
Transit	5,950,288	-	5,950,288	7.9%
Parks & Recreation	918,000	1,131,402	2,049,402	2.7%
Transportation	4,055,216	19,216,748	23,271,964	30.9%
Utilities	244,900	27,385,100	27,630,000	36.7%
TOTAL	\$ 20,830,343	\$ 54,391,548	\$ 75,221,891	

Economic Environment

The national and local economy declined severely from 2008 through 2009. The depth and length of this recession and its impact on the local economy is still ongoing. Although it has been determined that the national recession ended in June 2009, local economists believe that our region's economy bottomed out in early 2010. In 2011 and 2012, we saw modest improvement in some areas but further decline in others. We expect similar performance in 2013.

Construction permitting, housing prices and housing sales produced positive results in 2012, with large increases in single family permits and residential alterations. Housing sales and pending sales increased in 2011, but housing prices continued to drop. In 2012, housing prices increased as inventory shrunk and willing buyers increased. 2012 was the first year since 2007 that prices increased over the prior year.

The Northwest Multiple Listing Service reported 10,631 closed sales of single-family homes and condominiums in Snohomish County during 2012. This was up 14.1 percent over 2011.

We anticipate slow growth in prices and sales in 2013, providing mortgage rates do not rise substantially.

City of Everett Local Housing Industry Indicators			
	<u>2011</u>	<u>2012</u>	<u>Change</u>
City of Everett Construction:			
Single Family Permits	41	99	141.5%
Single Family Valuation	\$ 8,206,193	\$ 19,846,770	141.9%
Duplex Permits (Units)	4	3	-25.0%
Duplex Valuations	\$ 640,872	\$ 945,268	47.5%
Multi-Family Permits (Units)	2	-	
Multi-Family Valuations	\$ 16,933,935	\$ -	
Commercial Permits	11	9	-18.2%
Commercial Valuations	\$ 29,844,191	\$ 50,192,877	68.2%
Residential Alterations	221	254	14.9%
Residential Alterations Valuation	\$ 3,795,686	\$ 4,527,094	19.3%
Commercial Alterations	315	314	-0.3%
Commercial Alterations Valuation	\$ 44,009,394	\$ 59,484,263	35.2%
Sources: City of Everett Engineering Department			

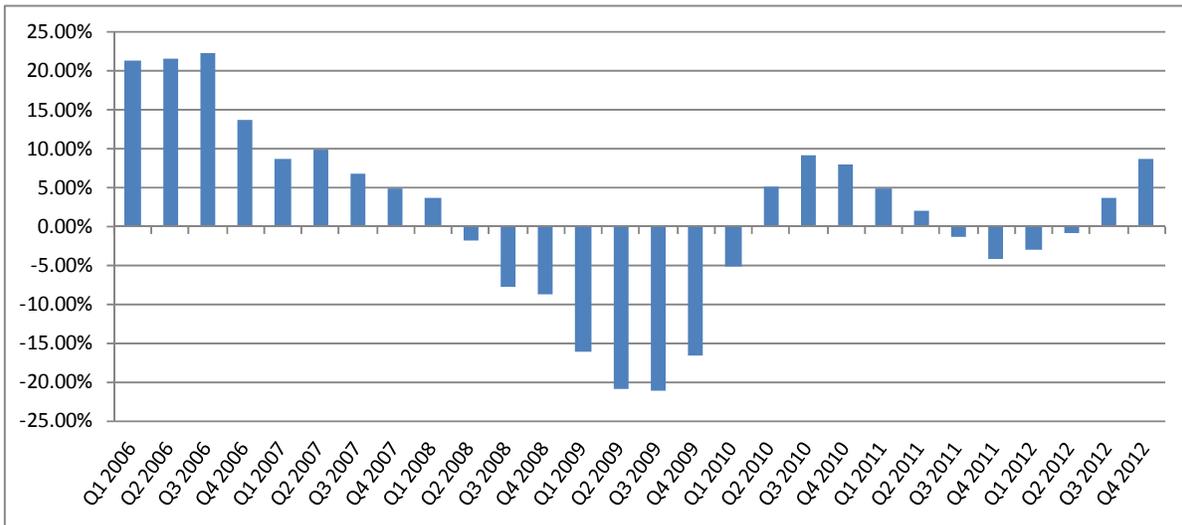
As of December 2012, the unemployment rate in Snohomish County was 6.7%. Employment is expected to grow slowly throughout 2013.

Snohomish County						% Change
Unemployment Rate	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Dec 2011	11-12
(not seasonally-adjusted)	4.5%	7.6%	10.8%	9.8%	8.2%	-16.3%
Source: Washington State Employment Security Department						

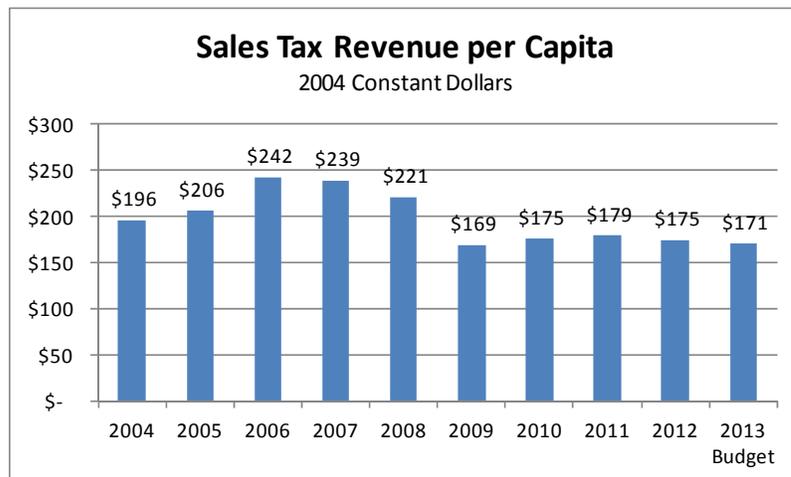
The City's three largest sources of tax revenue are property tax, sales tax, and business & occupation tax. Property taxes are limited to 1% annual growth in Washington State. Because the City's regular levy rate is well under the legal limit, declining property values have not affected property tax revenues. In contrast, the struggling economy has had a marked impact on city sales tax revenues.

The City began to see noticeable declines in sales tax in mid-2008, after experiencing extraordinary growth in 2006 and 2007. As shown in the chart below, sales tax revenues declined for eight consecutive quarters starting in June 2008. This trend began to turn around, beginning April 2010 with increases every quarter for 5 quarters. However, another dip occurred in mid 2011 through much of 2012. Starting September 2012, activity began to increase again, with a return to positive performance in the last two quarters of 2012. Sales tax revenues are expected to remain fairly flat for 2013 with modest growth in the next few years.

Sales Tax Annual Quarter over Prior Year Quarter % Change



The 2009-2013 reduction in sales tax revenue is shown in the chart below with annual sales tax revenue translated into constant dollars so that the impact of inflation is removed. There is a substantial decrease between 2006 and 2009 in the taxes available to provide services to our residents. Adjusted for inflation and population growth, real taxable retail sales may not fully recover for many years. Although the City has been able to develop budgets for 2009 through 2013 with minimal service reductions, some of the adjustments made are not sustainable for the long term. If current economic conditions continue for the next few years, the City may have to re-set service levels.



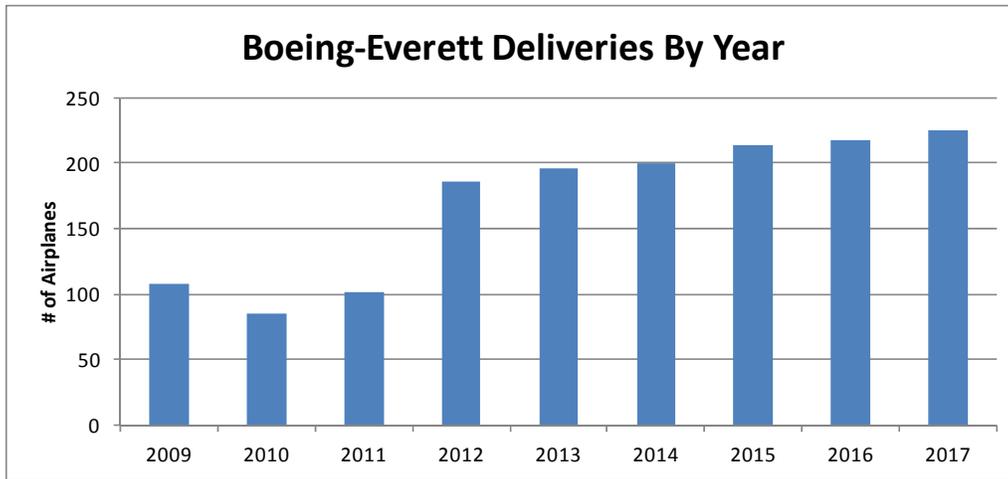
The chart below breaks out sales tax into major categories and shows large variances in activity between 2011 and 2012 for most categories. The Manufacturing and Information categories' large decreases were due primarily to positive audit adjustments received in 2011. If not for those adjustments, the Information category would have shown 3.1% increase over 2011 and the Manufacturing category just a 3.9% decrease.

The 12.7% decrease in the Wholesale category was due in large part to the City's decrease in bus purchases in 2011; purchases are scheduled to increase in 2013. The Construction category's increase of 18.7% is a result of the increase in building activity. Based on permit activity, this trend is expected to continue in 2013.

The City's largest business category, Retail Sales, is expected to grow 2.6% in 2013 over the 2012 budget.

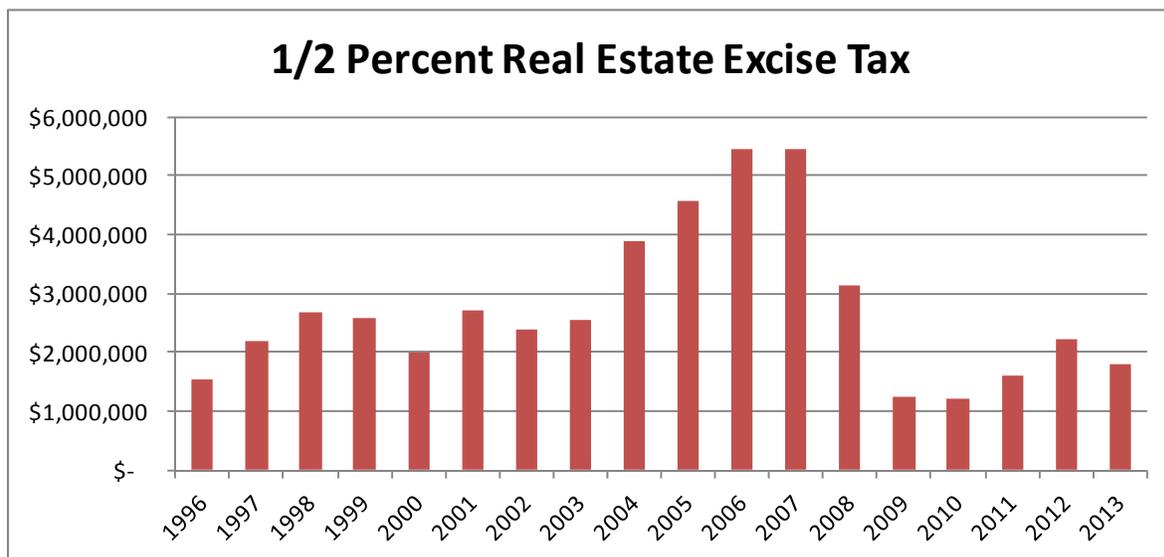
Sales Tax Revenue		
Category:	% Change 2011-2012	Category as % of 2012 Retail Sales
Manufacturing	-23.9%	6.5%
Wholesale	-12.7%	8.1%
Information	-15.3%	4.7%
Food Services/Accomod.	9.0%	9.6%
Retail	3.8%	44.8%
All Other Categories	-3.0%	14.3%
Construction	18.7%	11.9%
Total Sales Tax	-0.2%	100.0%
Retail Sales:		
<u>Areas of Strength</u>		
Motor Vehicle	11.7%	29.6%
General Merchandise	3.5%	25.6%
Furniture	10.8%	2.7%
Nonstore Retailers	7.7%	3.3%
Clothing	3.1%	3.9%
Building/Garden	2.6%	5.3%
<u>Areas of Weakness</u>		
Sporting Goods	-5.0%	3.5%
Food & Beverage Stores	-4.0%	6.0%
Electronics	-3.2%	6.0%
Misc Retailers	-3.0%	8.5%
Health/Personal Care	-2.8%	3.1%
Gas Stations	-2.8%	2.6%
Total Retail Sales Tax	3.8%	100.0%

The City's 2012 business and occupation tax, which is based on gross business receipts, came in 18.6% over 2011 as a result of Boeing's 787 airplane deliveries, which are expected to remain strong for the next several years. The chart below shows actual and forecast airplane deliveries for a nine year period. Boeing builds or assembles 747's, 767's, 777's and 787's in Everett.



Monthly real estate excise tax (REET) receipts (0.5% of the value of real estate transactions) represent a vital funding source for park and road projects and debt service payments. The following chart illustrates the impact of the Great Recession on REET revenues, beginning with a precipitous drop in 2008 that was followed by another large decline in 2009.

2012 REET revenues came in 38% higher than originally budgeted. Indications of improvement in the housing market at the close of 2012 suggest that our 2013 budget, which was formulated in August 2012, may also be underestimated.



City of Everett - 2013 Priorities and Current Initiatives

The City of Everett current initiatives focus on keeping our City services strong while preparing for future opportunities.

1. Foundation of a Great Community

- **Financial Health**

The City continues to live within its means and is maintaining compliance with the fund balance policy. Our long-standing conservative approach to financial management is helping us cope with the challenges presented by the national recession.

Everett's general obligation and revenue debt rating were reaffirmed by Standard & Poor's at AA+ in September 2012 and January 2013, respectively. This rating means Everett taxpayers likely will pay lower interest rates on bonds issued for capital improvements than they would have if the City held a lower credit rating.

The 2013 budget maintains the City's essential service levels, but Administration continues to watch the changing dynamics of the economy and is prepared to make adjustments as necessary.

- **Public Safety**

The Police Department has completed a new strategic plan that lays a blueprint for police operations and service delivery over the next five years.

Construction for a much-needed new municipal court began in 2011. The new building was substantially completed and opened for business in 2012. Final tasks will be completed in 2013.

The Residential Graffiti Removal Program continues into its fifth year in 2013.

The Fire Administration building is undergoing a seismic retrofit, which is funded primarily with grant funds.

- **Streets**

The City will make a \$19 million investment in streets in 2013, including the annual overlay program, completing the final segment of the 112th Street corridor project, continuing work on the 41st Street to West Marine View Drive project, and beginning the replacement of the Broadway Bridge at Hewitt Avenue.

- **Water/Sewer Utilities**

Over the next decade, the City will spend more than \$100 million to improve drinking water and wastewater systems to meet growth demands and regulatory requirements. The City provides drinking water to more than 550,000 people in Everett and Snohomish County, and sewer service to more than 120,000 people in Everett and adjacent areas.

2. Investment and Redevelopment

- Current large projects in the planning stages or underway in Everett include:

The Everett Community College expansion, which will conclude with a doubling of the campus size by 2015.

The Farmer's Market and residential living project.

Everett School District's new administration building.

Boeing's north tower office building.

The new Marriott Courtyard Hotel on surplus City property.

- **Economic Development Focus**

The fundamentals for a strong and increasingly diverse economy exist in Everett, including aerospace, Naval Station Everett, the health care community, the Port of Everett, and the SW Everett light industrial area.

The City has completed the planning process for the Central waterfront District in response to the Kimberly Clark divestiture.

The City participates in the Economic Alliance—a consolidation of Snohomish County's economic development organizations.

- **Commercial Air at Paine Field**

The City supports the development of commercial flights at Paine Field. A 2008 study showed that the City could attract more and larger high-tech businesses if commercial air service were more convenient. The study also said that regularly scheduled passenger flights could stimulate tourism and other economic development in the region.

- **Higher Education**

Bringing a four year university to Everett is in the forefront of our goals for this community. The City believes that Everett is the best location for a new four-year university that will provide the upper-division and advanced-degree access that our students, families, and employers seek. Everett and Snohomish County continue to be among the most under-served areas of the state.

Boeing has consolidated its engineering and R&D functions for commercial airplanes in Everett, and needs to hire 1,000-plus professional engineers each year to maintain its workforce. The City and Washington State University are seeking an avenue to locally serve the critical engineering needs of our aerospace-based economy.

In 2011, the City was successful in obtaining legislation to transfer operation and administration of the University Center of North Puget Sound to Washington State University. The Governor has asked the legislature for \$7.6 million for WSU to create 60 new engineering student slots, which, if approved, will help us move forward on this effort.

- **Navy**

In January 2012 the USS Nimitz made its homeport in Everett, replacing the USS Lincoln, which departed for a four-year refueling overhaul. Naval Station Everett has 6,000 employees.

3. Improving our Quality of Life

- **Parks**

In 2011 the City completed a master plan for Senator Henry M. Jackson Park. A small Phase One project on the west side of the park is programmed to begin in 2013. Additional funding from the State Legislature is being sought for the remainder of the project.

The replacement of soccer field #1 at Kasch Park is well under way and is expected to be completed in 2013.

- **Community Events**

The City will continue popular community events such as Sorticulture, Music in the Parks, Jetty Island Days, and Cinema Under the Stars.

Other Planning Processes

In addition to the five-year outlook budget model, the capital improvement plan, and the economic development plan, the City of Everett has numerous boards, commissions, and committees that play a role in helping to plan for the City's future. These include, but are not limited to: Animal Control Board, Council of Neighborhoods, Cultural Commission, Diversity Advisory Board, Historical Commission, Housing & Community Development Board, Housing Authority, Human Needs Advisory Committee, Library Board, Lodging Tax Advisory Board, Parks Commission, Planning Commission, Public Facilities District Board, Salary Commission, Senior Center Advisory Board, Transportation Advisory Committee, Tree Committee, Mayor's Youth Council, Neighborhood Associations and various ad hoc committees. These groups mainly have an advisory role to the City, and were created either by code or assignment.

The Future – Principal Issues Facing the City

There are a number of issues facing the City of Everett that present significant challenges or opportunities as we look to future years. These include legislative changes, regulatory changes, world events, and economic factors. This section describes and updates these subjects for events occurring subsequent to the November/December budget hearings.

The Economy

The Consumer Price Index (CPI) has a significant impact on the City budget. City bargaining unit cost-of-living adjustments and many other City contracts are tied to CPI. The June 2011 to June 2012 CPI resulted in a 2.6% CPI-based wage increase for union employees with current contracts for the 2013 calendar year. Appointive employees and elected officials also received a 2.6% cost-of-living increase for 2013, after three years of no increases. The five-year budget assumes low CPI growth for 2013 and a moderate growth in CPI for all future years.

The 2013 budget was balanced with minimal service cuts and no layoffs. However, 2013 appears to be another challenging year. If sales taxes or other revenues dip significantly below the budget, the City is prepared to take additional cost-cutting measures.

Boeing Production

The Boeing Co. delivered its first 787 Dreamliner jet in September of 2011. Boeing currently has 847 orders for the 787. The Boeing 747, 767, and 777 are also built in Everett and have unfilled orders of 107, 50, and 253 respectively.

In October 2009, Boeing announced that it would set up a second production line for the 787 Dreamliner in South Carolina. Since the dawn of the jet age, virtually all Boeing airliners have been assembled in either Everett or Renton, Washington. The City and State intend to work together to ensure that Washington State remains the center of aerospace manufacturing, both nationally and internationally. The set up of the second production line outside of Everett is not expected to have an impact on the current strategic outlook. 787 production will be at full capacity for many years, contributing to a stable business environment for our community.

In 2011, the Pentagon awarded the contract for the U.S. Air Force Aerial Tanker Program to the Boeing Company. The tankers will be assembled in Everett, supporting 9,000 jobs in our state, providing \$400 million in economic benefits and supporting some 70 suppliers across the state. The contract will provide orders for the first 179 tankers.

Boeing is, by far, the largest employer in Snohomish County with 32,000 employees. Boeing is expected to hire more workers in 2012. It is unknown how many of those jobs will be in Snohomish County.

B&O Tax Credit

In March 2010 the City amended the Business and Occupation tax ordinance by adding a tax credit for expansions that create 50 or more new jobs within four quarters. The taxpayer may claim a credit of one thousand dollars per new position, subject to a cap of \$500,000 per taxpayer. The added positions must remain filled for at least three years.

The City has received several taxpayer inquiries regarding the tax credit, but no applications to date. Tax credit applications are possible in 2013, but have not been included in the strategic budget.

State of Washington/U.S. Government

The state legislature has an extremely challenging budget to balance for the 2011-2013 biennium. It is unknown how any budget reductions may affect the City. The City receives various state-shared revenues including Streamlined Sales Tax Mitigation, Criminal Justice Assistance, Liquor Revolving Account, Liquor Excise Tax Account, and Motor Vehicle Fuel Tax. The City also receives various operating program grants, mainly related to public safety; and some capital grants.

Additionally, the state legislature works on a multitude of issues that could impact the City budget. No new state legislative impacts are included in the strategic budget.

The U.S government also provides grant funding for City programs, mainly in the areas of road construction, transit and Community Housing Improvement Program (CHIP) funding. Additionally, the U.S. legislature works on a multitude of issues that could impact the City budget. No new federal legislative impacts are included in the strategic budget.

BLANK PAGE